



ASX ANNOUNCEMENT

8 May 2020

Fat Prophets Global Contrarian Fund (ASX Code FPC) Estimated Pre-Tax NTA 6th May 2020

The estimated NTA per share for the Fat Prophets Global Contrarian Fund as at the 6th May 2020 is as follows;

Month to date NTA

	Amount (\$)
Pre-Tax NTA (as at 6 th May 2020)	0.9094
Pre-Tax NTA (as at 31 st March 2020)	0.7987
Change in NTA	13.86%

For the period from 31st March to 6th May the fund recorded an increase in NTA from \$0.7987 to \$0.9094, a gain of 13.86%.

Market Outlook and Portfolio Changes

Markets continued to firm in the first week of May, in the face of dire economic data with rapidly rising unemployment and declining GDP. **However, markets are now looking through the downturn to the recovery on the other side.** On this front, we anticipate some countries to be faster out of the blocks than others, and Australasia is positioned very well here, relatively speaking, with Covid19 infection rates under control and restrictions now being lifted. China, the first country to emerge from the outbreak, has already reported a sharp increase in industrial activity.

Our view has not changed - and that **fiscal and monetary stimulus measures** being injected into the global economy, **which dwarfs the GFC - will aid a faster economic resuscitation and a consumer-led recovery.** Meanwhile on the other side, as the global economy recovers, **investors will be faced with low to zero interest rates, in many cases negative yielding bonds, and in our view, a rising outlook for inflation. The dividend yield premium over bond yields – which stands at the widest in history - is likely to come sharply into focus in the second half of the year, which we see as underpinning equity valuations.**

After selling out in February, the Fund has re-established positions in **Wynn Macau, Sands China and MGM China**, and within a sector that was amongst the hardest hit during the Covid19 shutdown. However, these Macau casino operators have throttled back cash-burn and all have considerable cash reserves and undrawn credit facilities to weather the storm. **We believe it is only now a matter of time before mainland China lifts travel restrictions to and from Macau,** and with considerable pent-up demand, especially among the VIP and premium mass segments, revenues could recover rapidly.

Oil prices have been topical, with WTI futures falling to negative territory. There is a glut of supply that will persist for some time. However, **we see crude prices improving to at least US\$50 a barrel in 2021, and have elected Chinese oil services company COSL (HK:2328) as being one of the better ways to play a recovery.**

COSL is the dominant oil servicing player in China, but also with operations around the world. We have taken the view that COSL is significantly undervalued being more than 50% down from the February peak, **but where revenues are likely to be protected with largest customer CNOOC unlikely to scale back operations in China, due to the importance of China maintaining self-sufficiency.** The oil price will eventually turn higher, with the historic low prices ensuring supply destruction, some of which will be permanent, particularly in the higher cost US shale industry.

Angus Geddes
Chief Investment Officer
Fat Prophets Global Contrarian Fund